

IN THE COURT OF THE TRANSPORT TRIBUNAL

TRANSPORT ACT, 1947, AS AMENDED BY TRANSPORT ACT, 1953

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1960 No. 2)

FOR THE ALTERATION OF THE
BRITISH TRANSPORT COMMISSION (PASSENGER)
CHARGES SCHEME, 1959

AND

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1960 No. 5)

FOR THE ALTERATION OF THE
BRITISH TRANSPORT COMMISSION (PASSENGER)
CHARGES SCHEME, 1959

WEDNESDAY, 22nd FEBRUARY, 1961

TENTH DAY



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PROCEEDINGS OF THE TRANSPORT TRIBUNAL

WEDNESDAY, 22nd FEBRUARY, 1961

PRESENT:

SIR HUBERT HULL, C.B.E. (*President*)

J. C. POOLE, Esq., C.B.E., M.C.

H. H. PHILLIPS, Esq., O.B.E.

Mr. E. STEWART FAY, Q.C., and Mr. T. R. CRAWFORD (instructed by Mr. M. H. B. Gilmour, Chief Solicitor to the British Transport Commission) appeared on behalf of the British Transport Commission.

Mr. R. W. GOFF, Q.C., Mr. LEON MACLAREN and Mr. GEORGE MERCER (instructed by Mr. J. G. Barr, Solicitor to the London County Council) appeared on behalf of the London County Council, Middlesex County Council and the Surrey County Council.

Mr. LEON MACLAREN (instructed by Mr. G. E. Smith) appeared on behalf of the County Borough Councils of West Ham, East Ham and Croydon, and the Borough Councils of Walthamstow and Leyton.

Mr. S. H. NOAKES (instructed by Mr. W. O. Dodd) appeared on behalf of the County Borough Councils of Brighton, Eastbourne and Hastings.

Mr. G. B. H. CURRIE, M.P. (instructed by Mr. W. P. W. Elwell) appeared on behalf of the Folkestone and Kent Coast Railway Travellers' Association and the North East Kent Railway Travellers' Association.

Mr. E. R. FARR, Town Clerk, appeared on behalf of Barking Borough Council and the South Essex Traffic Advisory Committee.

Mr. PHILIP M. VINE, Deputy Town Clerk, appeared on behalf of the County Borough Council of Southend-on-Sea.

Mr. C. W. WINNICOTT, represented the Bishop's Stortford Season Ticket Holders' Association.

Mr. F. A. RULER, represented the Federation of Residents' Associations in the County of Kent.

Mr. CHARLES SARSON, represented the Chelmsford Railway Users Association.

MR. STANLEY WILLIAM HILL, recalled

Cross-examination by MR. FAY—*continued*

3159. Mr. Hill, have you your Exhibit SWH 8 in front of you?—Yes.

3160. That is comparable with Mr. Evershed's Exhibit AE 5, is it not?—It is comparable, yes.

3161. Am I right in saying that the differences between the two tables are due to one major and one minor factor, the major one being that you have taken a different figure for Central Charges; you have taken a lower figure, and therefore a higher surplus for self-financing?—Yes.

3162. That is the major difference?—Yes.

3163. And the minor difference is that you have omitted the £0.3m. in 1960 for bus and coach overhaul?—Yes, but that makes no difference.

3164. It makes no difference to the result?—No.

3165. I dare say you are right. I think you agree, though, that if one were going fully into it, that £0.3m. ought to be included?—If the figures had been fully available, I would have put it in.

3166. But you had not noticed that that figure existed?—That is right, but there is really only one difference which affects it, namely the Central Charges.

3167. Therefore, if the Central Charges are as Mr. Evershed suggests they should be in his table, his conclusions therefrom are right, are they not?—No, because—

3168. Line 10 is the important one in the table; it is finding the additional interest year by year?—Yes, but that does not explain the ultimate difference, or only a very, very little bit of it. The main difference stems from the fact that he brings forward from his previous calculations, or from some source, a Central Charge contribution of £6.0m.

3169. Yes, and I am saying that if his basis of £6.0m. Central Charges in his base year of 1958 is correct, then his interest additions in line 10 are correct?—I think that is so.

3170. And contrariwise, if you are right — if your base figure of £5.3m. for 1959 is right — your interest additions in line 13 of your table are right?—Yes. There may be an odd £0.1m. one way or another arising out of the different method of calculation, but that is substantially right.

3171. That is what I thought. Mr. Evershed's table AE 5 has an asterisked footnote to it, which I dare say you have read?—Yes, indeed.

3172. That points out that as one is taking the mean of the year, then from these figures there will be an additional £0.3m. in 1963 irrespective of any further increase in capital investment in 1963?—Yes; I do not dispute that.

3173. Let us be quite clear what it means: If in 1963 there is not a further penny invested, there nevertheless will be an increase of £0.3m. on Mr. Evershed's footing — that is starting with the £6.0m. Central Charges; there will be another increase of £0.3m. in the interest charge?—Yes.

(*President*): And similarly on Mr. Hill's table, that would be an equally valid footnote.

3174. (*Mr. Fay*): Yes, Sir; that was to be my final question on that. (*To the Witness*): On that table there will be a final figure of £0.25m. I think it is; that is the difference between the 1960 and 1961 interest in your table, which is £0.5m., is it not?—Yes. It will be £0.25m.

3175. I think that is all I have to ask on that table. May I now go back to something you said yesterday; here I am on Exhibit PJ 16. You recall that yesterday you expressed surprise, and indeed incredulity, at the idea of the Commission borrowing money in the early years of its existence, so that in effect it could use up the trust fund of £40m. odd at a saving to itself of 3 per cent.?—Yes.

3176. That arises out of Note 1 on PJ 16?—Yes.

3177. I want to refer you now to the Commission's Report — not the Accounts — for 1951.

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[Continued]

(President): I wish we had been told about this, Mr. Fay; we would have had it here.

3178. (Mr. Fay): I am sorry, Sir, but these things have to be done by midnight oil, I am afraid. I can hand a copy of this to the Tribunal. (Report for 1951 handed.) (To the Witness): At page 67 of that Report there is a rather lurid-looking chart which I dare say you have had occasion to examine in the past?—Yes.

3179. It shows how the liquid funds of the Commission declined from its inception at the beginning of 1948, and broadly speaking how they were spent?—Yes.

3180. The liquid funds are the thick black line which starts in 1948 at about £280m., and then declines?—Yes.

3181. Do you see in the top half of the chart a box containing the words: "Liquid funds. Decline in Cash, investments, etc., offset, at end of 1951, by issue of Transport Stock for cash—£60m."—Yes.

3182. That was in fact the first issue, was it not?—Yes.

3183. That accounts for the black line taking a sudden upsurge towards the end of the diagram?—Yes.

3184. Of course, if that £60m. was necessary at that time, it would have been necessary a little earlier if the Commission had had £40m. less in its liquid funds, would it not?—Yes, a little earlier.

3185. And 1951 is before the interest rates go up?—Yes, but that issue in 1951 was a very, very unusual issue. I cannot give the full reasons for it, but it was of Stock carrying an interest rate of 1½ per cent., and it was only for one year. It was a temporary financing issue, so I would hardly think that that is the point at which it could be said that liquid funds took the place of permanent Stock. The first permanent Stock issue was made in 1952.

3186. The £60m. was funded next year; you know that?—Yes, at 4 per cent. If you want to do this deeming transaction, Mr. Fay, you must do it completely and give London 4 per cent. on it; that is the point I made yesterday. You have not done that; you have given it 3 per cent.

3187. But interest rates had gone up on a permanent basis; if they had borrowed on a permanent basis in the preceding year, it would have been at 3 per cent., or less perhaps?—No, I do not think it could have been; it would have been something approaching 4 per cent.

3188. But they got their one year low, at 1½ per cent.?—Yes, but it was a sort of temporary loan; I think it was actually done by Stock.

3189. Never mind whether it was temporary or not. It was a borrowing; they wanted more liquid assets?—It was just a holding operation until they issued the 4 per cent. Stock the next year, and it was paid out of the proceeds of the 4 per cent. Stock. That is the point I made yesterday, Mr. Fay; if you deem that these moneys were utilised at some stage, certainly not at the beginning, but utilised ultimately for British Transport Commission purposes, you can only do it and give 4 per cent. on it, and that makes a lower charge than my tables would give.

3190. Now may I turn to another of your tables; that is SWH 6. This is your table showing how you apportion the Central Expenses. I use the word "Expenses" to indicate a difference from what we ordinarily call "Central Charges"?—That is so.

3191. On one aspect they are part of the Central Charges, but these are the miscellaneous Central Expenses of the Commission in the last two years, and on your table you apportion them at 9 per cent. Instead of the previous 10 per cent.?—That is so.

3192. I do not know whether there is anything between us on this; Mr. Evershed agreed in cross-examination that it was a proper method of apportionment to take the ratio of the Central Charges properly so-called?—Yes.

3193. On his basis it is 10 per cent.; on your basis it is approximately 9 per cent.?—Yes, in the last two years, 9 per cent.

3194. On your figure of Central Charges—

(President): It is not on his figure of Central Charges; it is on his figure of the interest part of Central Charges.

(Mr. Fay): No, Sir; it is his figure of Central Charges working it out on the global approach, which is £5.3m., which I think is slightly less than the 9 per cent. 9 per cent. of £60m. is approximately £5.5m., is it not?

(President): It is £5.4m.

(The Witness): Yes; 9 per cent. of £60m. is £5.4m.

3195. (Mr. Fay): Yes; in 1961 it was getting on for £5.4m. (To the Witness): Taking it to the nearest per cent., do you agree that on his Central Charges of £6.0m., he ought to take 10 per cent. on this calculation?—Yes. I think I must have given you a wrong answer yesterday, Mr. Fay; this 9 per cent. that I have used does not have its origin in its relationship to my figure of Central Charges of £5.3m. compared with the total Central Charges of £6.1m. I am sorry if I said it did.

3196. I dare say the apology should come from me. On the assumption that it did, it does work out at 9 per cent.?—Yes, it does. It had its origin in the fact that London Transport undertaking measured as against the whole of the B.T.C. again by reference to its capital investment is now something under 10 per cent.

3197. It should be the same percentage, should it not; the interest rates are the same?—It should, but I want to make it clear that the reason for the 9 per cent. was the basic relationship of their size. They had a common origin in that one was taken from the other. I think that may be important later on.

3198. (President): I do not follow this at all. (To the Witness): Will you tell me where you get your 9 per cent. from?—The relationship of capital investment in London Transport undertaking in relation to the British Transport Commission which can be derived, although it is not shown as a percentage, is SWH 2.

3199. But was it derived from Table SWH 2?—It was derived from the working table from which SWH 2 was obtained.

3200. (Mr. Fay): It is the relationship of line 7 to line 14?—Yes.

3201. If that is the ratio you used in order to produce your figure of Central Charges of £5.3m. at line 16, it is the same percentage?—Yes, but I wanted you to be quite clear as to where I had got it from; in other words, I had not used an answer to provide me with the fraction of the other calculation.

3202. I do not see that it makes a ha'porth of difference.—But I did not want you to think that I had used one calculation to provide me with a basis for another calculation.

3203. (President to the Witness): I think you have; it is 7 over 14 expressed as a fraction and not as a percentage?—With respect, no, Sir. It is true that there are two things here which are the same in amount, but this percentage derives from the basic figure of capital invested in the two. I do agree that it must be the same relationship.

3204. (Mr. Fay): But that is where you got it from?—From the basic capital invested, yes.

3205. And if the basic capital invested as it appears in SWH 2 is not the right test for the division of the Central Charges as a whole, but the proper test is one producing not £5.3m. but £6.0m., then the percentage for SWH 6 would still be 10 per cent., would it not?—If I were wrong on my basic figures, yes, that is right.

3206. Yes, and that change in percentage makes a difference of £0.1m. in the final figures for Central charges on your specific approach?—As I explained yesterday, it makes a difference of £0.06m. of the total difference in that column.

3207. It is easy for us to look at SWH 6 and insert in column 16 the 10 per cent. figures; all we have to do is to bring the previous ones down and move the decimal place. For 1958 10 per cent. would be £595,000?—Yes; that is the difference of £0.06m.

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[Continued]

3208. And 10 per cent. in 1959 would be £593,000?—Again £0.06m. It is not the whole of the £0.1m.; the other bit of difference which makes up the £0.1m. is that Mr. Evershed and I are not dealing with the same items. I explained this in detail yesterday.

3209. Yes; when you transferred this into your specific approach table SWH 4, it in fact turns the fraction of the total charges, does it not?—I am sorry; I do not follow that.

3210. Take 1959. No, I do not think it does.—No; it is roughly half the difference. I think it can be very simply put, if I can help you here: In 1959 if the figure which has its origins in the same calculation is the £0.5m., obviously the 10 per cent. calculation should be £0.61m.

3211. I think in SWH 6 you bring out a figure of £534,000; you translate it to £0.55m. in your table?—Yes, I explained in chief that I took a round figure for each of those years.

3212. Although I think you have gone to two places of decimals for 1957?—As I explained, for two years only it is actual; for three years it is estimate, and rightly or wrongly I take the same round figure for each of the five years. I could perhaps have shown: £0.53m., £0.53m. and then £0.55m.

3213. Perhaps I have taken a bad point here—

(President): Have you, Mr. Fay? It may be a bad point, but I would like to understand it. (To the Witnesses): Column 9 in Table SWH 4 is an allocation of Central Charges other than the interest charges, is it not?—Yes.

3214. And your figure for 1958 is £0.55m.?—Yes.

3215. In your Table SWH 6, your figure in line 16 is £536,000?—Yes.

3216. If the right figure is £595,000, then it does not square with the £0.55m. in column 9 of SWH 4.—You mean, Sir, that it should be £0.54m. instead of £0.55m.?

3217. No. I may be misunderstanding the point altogether; I will do it again. In SWH 6 you are working out the London Transport share in the Central Charges other than the interest charges?—That is correct, Sir.

3218. And you work it out at £536,000?—I do.

3219. If the right figure be £595,000, that would mean that in column 9 of SWH 4, the figure ought to be £0.59m. instead of £0.55m.?—Oh, yes, if one were taking 10 per cent.; but, of course, I am taking 9 per cent.

3220. I know, and the same thing would be true of the 1959 figure; that again would be £0.59m.?—If I were taking 10 per cent., yes, Sir.

3221. (Mr. Fay): I am not sure that I did take a bad point after all; it is too early in the morning to see straight. Column 11 of SWH 4, Total Central Charges, appears as £5.73m.?—Yes.

3222. If one had to alter your basis of allocation of Central Expenses from 9 per cent. to 10 per cent., that figure should go up by £0.04m., should it not?—£0.06m.

3223. In column 9 you have got £0.55m. and you would have to put in £0.59m., which is £0.04m. more?—I beg your pardon, £0.04m., yes.

3224. So that means the figure in column 11 would be £5.77m.?—On a 10 per cent. basis, yes.

3225. That, if one were going to one place of decimals, would turn the fraction, would it not; it would put it up from £5.7m. to £5.8m.?—I would have to look at every one of the components to make quite certain of that, because they are all to two places; but it might, or might not.

3226. I leave that matter there and go to something rather more weighty on your Table SWH 6. Your system, if I understand it rightly, of allocating these Central Expenses is to take the whole lot and apply a percentage?—It is, yes.

3227. Or almost the whole lot?—I thought it was the whole lot that were relevant.

3228. You appreciate Mr. Evershed's method is different?—Yes, I do. Whether Mr. James's method was different I am not quite certain, because he said it is 10 per cent. of the whole.

3229. I know the heading of the column in PJ 16 says that, but Mr. Evershed said that, in fact, there was a measure of Mr. Evershed's present method in that column?—Yes, I think he did.

3230. Never mind the past, I want the present. Mr. Evershed's method is this, is it not: First of all, he takes in the items which are peculiarly and wholly London Transport?—Yes, he does.

3231. And he assigns them in full?—And he assigns them in full, yes.

3232. You cannot complain of that, can you?—I cannot complain of that up to that point, no, and on the two items that he takes, namely the fees of the members of the London Transport Executive and the guarantee on the Central London Stock, I would not disagree in principle.

3233. Then *per contra*, any items which are peculiarly those of other activities he omits altogether?—Yes; he only takes one out, but I think he does that.

3234. The fees of the Area Boards?—The fees of the Area Boards.

3235. That is right, is it not?—That in itself is right if he is approaching it in that way.

3236. Then you are left with expenses which are clearly common to all the activities?—They are common, though, I suppose, not necessarily proportionate.

3237. Mr. Hill, if one had unlimited time one could, I suppose, perform a costing investigation of each item?—Like Local Authorities do, yes; they have to.

3238. Then you might find that the cost of the Transport Tribunal falls almost entirely on London Transport?—I think, perhaps, that item would. But there, again, the cost of the Transport Advisory Consultative Committee would fall entirely on British Railways.

3239. Would it?—I thought so. I have not heard anything to the contrary.

3240. Have you not?—Well, yes, there was a dispute about a Tube station, but it is mainly British Railways.

3241. Not only Aldwich Tube Station, but early and late running on all the Tubes?—Yes, that is right.

3242. And you must not take it from me that that is the only one?—But it is overwhelmingly British Railways.

3243. But since one has not either the time or the staff to perform that kind of very detailed time study, it is fair to take a proportion, is it not?—If one is seeing quite clearly where one is going, yes, I do not object to taking a proportion, although I say there are serious pitfalls if one is going to take some items out specifically and then apply a proportion to the rest without looking at what that proportion should be. It is only at that point that I quarrel with Mr. Evershed.

3244. Why should the proportion be different if it is applied to some and not to all?—That is quite simple. One gets a perfect illustration of that if one takes the Central Administrative Expenses as shown in Account IV-6.

3245. (President): We are on the 1959 Accounts, are we?—Yes, page 23. Could I give the answer, first of all, in relation to the salaries, etc., paid to the members of the Commission, and I would like also to apply it to the much larger item, Administration Expenses. Whereas it may be a reasonable thing to take 10 or 9 per cent.—and we need not get into that dispute at this point—of the total of these several items, if one takes out the London item separately—that is the last item here, the £31,755—and attributes it solely to London, one brings into the question whether it is then right to take 10 per cent. or 9 per cent. as the London share for this reason, that since the changes made some years ago there is only one Executive and that is the London Executive; all

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[Continued]

the other Executives were abolished, and, as is well known, the Commission became directly responsible for all their other activities with no Executives only Area Boards, which is something quite different. It is quite clear that, by reason of the delegation to London Transport the British Transport Commission, as a Commission, is not concerned with the day-to-day or month-to-month affairs of London Transport to the same extent as they are with British Railways and the other activities. I would therefore say that it is reasonable, if you are taking out the London part and changing it entirely to London, to say what would then be an appropriate percentage to apply to the balance. I cannot tell you what that percentage would be, but it obviously must be something less than it would be if you applied it to the whole. I think that is axiomatic.

3246. You are saying that the members of the Commission, whose salaries appear in the first line of this table, devote less of their time to London Transport than they do proportionately to the other activities? Is that what you are saying?—Yes, by reason of having delegated to the only statutory Executive so many of their functions.

3247. Have you any factual justification for saying that?—Yes. I do know that practically all the running of London Transport is conducted by the London Transport Executive.

3248. And all the running of British Railways is conducted by the Regional Managements, is it not?—No. The British Transport Commission have a much closer and more intimate concern with the day-to-day running of their other activities than they have in relation to London.

3249. Have you the slightest basis for saying that?—I think I could show you something in one of the Reports that indicates it. I think it is the 1953 Report, but I am not quite certain; it was after the change.

3250. Are you referring to a Report?—I am referring to one of the Reports of the Transport Commission. Might I ask for a little help? The reference is in some notes which I gave Counsel of which I no longer have a copy, because all the copies were used. It was some typewritten notes, and it would save time if I could have that reference.

(Mr. Fay): I am sure the President will allow you to go and look for it.

(President): Yes.

(Mr. Goff): You have no objection to my handing the whole file to the Witness, Sir?

(President): None at all.

3251. (The Witness): It is the 1953 Report, Volume 1, Paragraph 37 on page 7, with which has to be read Paragraph 39. We are dealing here in this illustration with fees payable to members, not to officers. In Paragraph 37 it states quite clearly that: "By the British Transport Commission (Executives) Order, made by the Minister on 19th August, 1953, and coming into effect on 1st October, 1953, all the Executives were abolished, apart from the London Transport Executive, and the functions previously exercisable by them became directly exercisable by the Commission. Accordingly, as from 1st October it became necessary for the Commission to bring into operation an interim scheme of organisation covering not only the railways but the greater part of their undertaking." Then it says in Paragraph 39: "Directions were issued to Boards of Management"—this is at officer level—"set up for the British Road Services and the Docks and Inland Waterways, replacing the former Executives, to enable them to perform the function of management as agents for the Commission. The Hotels Executive was not replaced by a board of management; the managerial function was entrusted to a Chief of Hotels and Catering Services." I say the net result of all that, leaving the London Transport Executive as an almost autonomous body within the British Transport Commission, in fact a statutory incorporated body as the London Executive is, must mean that proportionately the Transport Commission members do not, and cannot, give 10 per cent. of their time to London Transport but something less, because, they have delegated so many

of their functions to London Transport. That is why it is dangerous to take out London Transport and then apply the same percentage to the rest.

3252. (Mr. Fay): But the functions previously delegated to the Railways Executive are now performed by the Railway Managements, are they not?—At Management level, yes. There is a devolution at Management level, but we are talking here of Executive level.

3253. You are suggesting that all the decisions which in London Transport are taken by the Executive, in the Commission have to go up to the members of the Commission and be decided by them, are you?—I am saying that there are decisions which the members of the British Transport Commission have to concern themselves with in relation to railways and other activities which in the case of London Transport they do not have to concern themselves with.

3254. Such as?—All sorts of matters of policy. I cannot possibly give you the items, but I think that follows necessarily from this.

3255. You do not know, do you? One would have to ascertain the relative amount of time spent, would one not?—I think one would to be precise, yes; but it does bring into question this percentage where you have got an Executive for one, but you have not got an Executive for another.

3256. You have another level inserted?—Yes, a Management level, not an Executive level.

3257. You have another level inserted in London Transport, and you say that relieves the Commission members of some of the strain on their time?—Yes.

3258. Have you any idea what the Commission members do as regards London Transport? You used the word "autonomous". Do you know, for example, whether London Transport can put up its fares without recourse to the Commission?—Oh, no, not put up its fares, it cannot do that; but it carries on everything else on its own.

3259. (President): Does it? Does it decide what new schemes of work there will be on its own without consulting the Commission?—It has to go for their approval, Sir, but it is quite clear from this constitution that the Commission is more concerned with the day-to-day, week-to-week and month-to-month affairs of the other activities than it is with London Transport. Otherwise there is no purpose in having an Executive.

3260. (Mr. Fay): What about a wholly-owned provincial bus company. Do you suggest that the Commission devotes much time to them, interfering with the Boards of Directors of those companies?—Hardly at all in that case, I quite agree.

3261. That is another one in which a time study might show that the percentage should be a lot less than 9 or 10 per cent.?—That is rather comparable with London, because they have their separate Boards of Management.

3262. But unless one works out a time study, one cannot arrive at anything except a broad percentage?—Precisely; and a broad percentage applied to the total, I believe, more likely to give you a reliable answer than if one does something specific. You get the same thing again at the second stage in relation to the British Transport Commission's Headquarters. There is a total expense there of something approaching £1m. a year.

3263. You are back on IV 6?—Yes.

3264. The second item, £822,000?—Yes. Here, again, I cannot prove anything, but I can raise a question which I think is, perhaps, relevant in this connection, and that is this: The largest items there are the salaries, office expenses, etc., the largest being salaries. They are in one way or another staff expenses, either paying for or accommodating staff, amounting this year to £821,000. They are expenses that are relevant to a staff at the headquarters which numbers, I think, of 615, as can be seen from the first column on page 157. The question I would ask myself is this: Having regard to the fact that London Transport has its entire separate Management in separate offices, is it reasonable to think that there are, say, 61

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people at the British Transport Commission who are spending their entire time in overlooking the affairs, or overlooking the work, of the London Transport staff at Broadway, or, if you like, 120 people spending half their time? I do not think they can be. I cannot see what they could be doing. It is impossible to envisage 60 people in the Transport Commission overlooking the work of London Transport, Broadway. So there, again, I think it brings into question the 10 per cent. if you once apply this method.

3265. Mr. Hill, this is purely speculation, is it not?—It is indeed.

3265a. You are speculating that there are 60 people, or the equivalent of 60 people, working in the Commission on the affairs of London Transport?—Yes.

3266. Including all the accountants?—No, not all the accountants.

3267. You are not forgetting the accountants?—No; most of the accountants are in the London Transport bit.

3267a. And, of course, the accountants who are in the London Transport organisation have their counterparts in the Regions of the Railways and in the headquarters' organisation of the docks, and so on?—That is a different point. I am asking: Could it be that there are 61 people at the Commission's headquarters concerned solely with the affairs of London Transport?

3268. Let us take the accountants. Mr. Evershed, as head of the accounting department of London Transport, has his counterpart in the docks, has he not?—Precisely.

3269. And it does not take more, or less, of the headquarters' accountants of the Commission to oversee or consider the work of Mr. Evershed's department than it does Mr. Trevor Davis's department in the docks?—I would not necessarily accept that without proof.

3270. I do not know why.—Because London Transport is such a self-contained organisation, and I do not think that is true of the Railways.

3271. Why do you say the dock administration is not a self-contained administration? Is it simply because it has not got an Executive?—Yes. The docks are a series of different undertakings. There is not a docks undertaking, it is a series of dock undertakings.

3272. But there is a docks undertaking. There is a Central Management of the docks.—I will accept that if there is; I did not know there was.

3273. The Tribunal knows there is, you know. There is a General Manager, who was giving evidence here last summer, of all the docks, and he has got his staff and his accountant, whose name I have just given you, who is the counterpart of Mr. Evershed. There is not the slightest reason to suppose that the headquarters' accountants of the Commission spend less of their time looking after Mr. Evershed's work than they do looking after the docks' work *pro rata*?—No, I think it is extremely likely. I think they are doing all the main accounting work of British Railways.

3274. The headquarters' staff are?—Yes.

3275. Have you an iota of evidence on that?—It is the only way I can see it could be organised. But if you tell me that is absolutely wrong, I must accept it.

3276. It is all speculation on your part, in other words?—Yes, but I ask what I think is the relevant question.

3277. I see your point on Item 1. You are saying here is a level in the London Transport Executive which has no counterpart?—Precisely.

3278. But that does not apply at the next level down, administration; they have got counterparts—I think it must do, because I cannot for the life of me see how you could use 60 people in the British Transport Commission overlooking the work of the London Transport staff at Broadway. I cannot see how you could; I do not know what you would do with them.

3279. 60 people is not a great number?—It is.

3280. Set against an undertaking with a turnover of £80m. a year?—But it is an awful lot of overseers when you have got your entire Management at Broadway.

3281. You say the same, I suppose, about the docks, if there is a staff of, whatever percentage the docks throw up, overseeing the Docks Management?—Maybe. It is my belief that this figure is very, very much railways, but I cannot prove it.

3282. We see your train of thought. What about the next item?—The next item is absolutely common, and I do agree it can be applied on a common percentage because here we know that London Transport does not have its own separate legal organisation. It might be a branch, but it has not got its own separate legal organisation, and therefore I accept that.

3283. (President): Do you think, possibly, more of the time of the Legal Department is spent on London Transport than on anything else?—I should not think so. I should think British Railways take some part of their time.

3284. More of the time of these Inquiries—Oh, yes.

3285. The legal expenses of this Inquiry are devoted to London Transport?—Yes, I would very willingly concede that. But I am sure that was a staff costing in all £800,000 the vast bulk of their expenses must be on the salaries of people doing ordinary legal work, conveyancing and that sort of thing.

3286. (Mr. Fay): And dealing with running-down actions, and so on?—I suppose so.

3287. Prosecuting for fares offences?—That is natural; that is all over the country.

3288. That is what I was going to ask you. Will you accept it from me that all the legal work of London Transport is, in fact, done by this legal service?—Yes, I thought it was.

3289. Will you accept it from me that all the legal work of the other activities is not done by the legal service?—I will accept it if you tell me that it is true.

3290. The omnibus companies have got their own solicitors who deal with their prosecutions and civil claims?—Yes, I think they have.

3291. So if you are going to look as finely as you suggest into this matter, you would have to take more than 10 per cent. for London Transport on this item?—If we could establish that more than 10 per cent. was relevant.

3292. Having regard to the factors one way and another, do you not think, looking even within the confines of Table IV-6, that the proper thing to do is to take 10 per cent., or 9 per cent., taking out those first three items?—No; it is much safer to take a percentage of the lot.

3293. Bearing in mind that the biggest of those three items is the legal service, which may well be more than 10 per cent. if properly costed out?—It may be either way, we do not know.

3294. It is unlikely, is it not?—Oh, no.

3295. Your system is to take 10 per cent. of everything, including members of the Area Boards who have nothing to do with London, in this table?—Yes.

3296. And the members of the London Transport Executive who have everything to do with London?—Yes, I think that balances out.

3297. Are you really saying that produces a fairer result than allocating these last two items, which are clearly capable of allocation, and taking 10 per cent. of the rest?—Yes.

3298. You do?—Yes. But the fairest of all systems is one you cannot do, and that would be to allocate every one, like Local Authorities.

3299. On the basis we have been discussing, of an investigation into the relative amounts of time spent?—Yes; you just ask the people to give rough time-sheets.

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[Continued]

3300. Very well; that is what you say about that. Granting Mr. Evershed's method of approach, that of taking out the specific items, of which we see two on this Table IV-6, the items to be put in and allocated are the following, are they not—have you got your SWH 6 in front of you?—Yes.

3301. I would like to go through it in conjunction with what Mr. Evershed has, in fact, done. The first three items on your table, which add up, one sees, in 1959 to £4,067,000, are three items which he takes?—Yes.

3302. So there is nothing between you there, it is right that they should be taken?—Yes.

3303. Now Central Administration, which you have got down as £1,905,000. Where have you got that from?—It is a combination of five items, because the Commission changed the form of their accounts last year. They were all lumped together before, and they can be seen in Account IV-6, in round figures, £1,818,000.

3304. £1,817,000, as I make it, is the first three items on IV-6?—No, it is the total.

3305. I am sorry, yes.—It is £1,818,000. Then we have these items in IV-5 which in earlier accounts used to be shown together, so I have had to pick them out again: Subscriptions and donations, £36,000; expenses of the Transport Consultative Committees, £25,000; expenses of the Transport Tribunal, £20,000; audit fees, £6,000, and the total of those is £1,905,000.

3306. The total of the four items in Table IV-5 is £87,000, I think.—That is correct, yes.

3307. Since you have taken those in, I am happy to tell you that you and Mr. Evershed are still in step, because he has taken Central Administration—less, of course, the two items he takes out—and he has taken the four items you mention out of Table IV-5. So far you have got the same items. The next thing you do is to put in £20,000 "compensation of staff"?—Yes.

3308. I should think you are probably right there. Mr. Evershed has left it out because it was a small figure.—It probably is exclusively railways, I do not know. I did not know that, so I brought it in.

3309. It is capable of covering all the activities, clearly; so there is not much between us so far?—No.

3310. Then Mr. Evershed takes something which you do not take, he takes the interest on the Stock Redemption Accounts which figure in Table IV-7?—Yes.

3311. That is £1,107,000?—That is correct.

3312. And he sets against that the income from investments held in respect of the Stock Redemption Fund?—Yes.

3313. That appears in Table IV-10 and gives a credit substantially above the debit?—It does indeed.

3313a. £1,518,000, in fact.

(President): The £1,536,000 in Table IV-10 is not arising solely out of the Redemption Stock Account?

(Mr. Fay): No, Sir, that is why he only took a part of it. On the table there is £1,537,000, and he has taken the appropriate part at £1,518,000.

(President): That is an ascertained figure which does not appear in the accounts?

3314. (Mr. Fay): That is so. (To the Witness): That is the sum of the figures which he takes for the purpose of applying his 10 per cent.?—Yes.

3315. So, in fact, he is taking a less global figure than you are taking, is he not?—I think he is.

3316. If one ignores the two items which he has taken out altogether because they are specific to other activities, his total, after giving credit for the interest, is £5,507,000?—That is so.

3317. So he has taken less?—Yes.

3318. That is what he takes his 10 per cent. off?—That is what he takes his 10 per cent. off.

3319. Giving £551,000?—That is what I have not got. I followed his evidence, but I could never reconcile it back again; the differences were so small.

(Mr. Fay): It occurred to me, Sir, that evidence was not the easiest way of dealing with it, and it might be helpful to have these figures on a piece of paper as an Exhibit. I think I had better ask that that should be done and they be put in.

(President): Then that will be Exhibit AE 7.

(Mr. Fay): We have given the reference "AE 7" to the answer to your query which is available and which I was going to put in when I had the opportunity. May we call this AE 8 when it goes in?

(President): Yes.

(Mr. Goff): May I ask through you, Sir, a question of my learned friend before he goes further? He has just said Mr. Evershed's figure was £551,000. Would he be so kind as to tell me where that appears in the accounts, in AE 6?

3320. (Mr. Fay): It does not. That is the figure applying 10 per cent. to the common items. To that you have to add the specific items to arrive at the final figure. I have not completed my sum yet, but if my learned friend would like to look at my rough copy of what is going to be the Exhibit he will be able to see it. (To the Witness): So far have you any quarrel with what Mr. Evershed has done, apart from saying it ought not to be 10 per cent.?—Only the quarrel to which I referred, that I think it is inadvisable and dangerous to mix the two methods. But so far as the items you have just given me are concerned, I do not disapprove.

3321. What in the world is wrong with applying to an activity an expense which is the activity's only? It is a question of accounting, is it not?—Absolutely; nothing wrong with that at all.

3322. The accounts might have been prepared with the salaries of the members of the London Transport Executive in the London Transport Executive accounts?—I quite agree with that.

3323. In which case they would have gone in with the working expenses?—I quite agree. I wish they had.

3324. Then you would not be able to take this point?—I would not have worried, the point would resolve itself. By the same token we should not then have to speculate on these other items.

3325. Oh, yes, you would have the rump of the common items, would you not?—It would be abundantly clear then that a lower percentage would apply to them.

3326. It would, would it?—I would say so, yes.

3327. What about the capital redemption, the first item in your table?—That is common. It can be broken down; it is capable of being broken into its separate parts. Mr. Lawson did it.

3328. Why is it not proper to take the ratio of the Central Charges, or, as you would prefer it, invested capital, to break it down?—You can do. You will get almost the same result in any case.

3329. It must be the right way, must it not? Capital redemption is applicable to the capital?—Precisely. That is really what I have done.

3330. If you are dividing the capital 10 to 1 you must divide the capital redemption 10 to 1?—That is what I have done.

3331. But you do not like my doing it after taking out the specific items?—No. I do not like you doing it when you take out specific items of the fees of the London Transport Executive and then still assume that the same percentage applies to the fees of the British Transport Commission. That was the point.

3332. Your criticism is limited to Table IV-6, is it?—Oh, yes.

3333. You do not criticise the 10 or 9 per cent. applied, even in isolation, to capital redemption?—Oh, no.

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[Continued]

3334. That is a very small ambit of difference between us?—It is, yes.

3335. You have given credit at line 10 for £56,000 miscellaneous receipts, but you are satisfied now that that is wrong?—I think Mr. Evershed has told us that none of that arises on London at all. I will accept that.

3336. That is not quite right. They are in the accounts now for London?—No, none of the £56,000 arises on London at all. I think that is what you said.

3337. Where do you get your £56,000?—From the same accounts, that is the 1959 accounts, page 26: Account IV 10, miscellaneous receipts, £55,957.

3338. I see. That is, in fact, the rump after the London Transport share has been taken out and put into London Transport?—Yes. I think he said it was primarily parking fees at British Railways' stations.

3339. That is the biggest single item. We had something about this last time.—I had forgotten; I did not know it had dropped up before.

3340. There was a change in accounting methods, but prior, I think it was, to 1957 this table at which you are looking did include London's figures, and therefore Mr. James took it out and put it into PJ 16 down to that year.

(President): And he explained where it came from, because his PJ 16 did not square with the accounts, as we then had them, up to 1957.

3341. (Mr. Fay): Precisely. (To the Witness): One sees the year in which a change was made, because in PJ 16 he has entries down to and including 1956, but nothing for 1957; that is column 10?—Yes. Some part of that, I think, is to do with the freight rebate adjustment in the earlier years; but I would not argue about that.

3342. So you are satisfied now that that ought not to be there?—I accept Mr. Evershed's evidence that there is now nothing in that item relative to London.

3343. (President): I think I caught a whisk of the tail of a very old hare then, freight rebate accounts, did I not?—Yes; but that is now dead and should be buried.

3344. (Mr. Fay): I was passing hurriedly on from that, Sir, (To the Witness): Then line 13 is a difference between you and Mr. Evershed. He simply omits the profit or loss on the sale of investments because they are apt to even out year by year?—Yes. I do not quarrel in principle. I have brought them in because they were there.

3345. I do not think I can quarrel with their being brought in. It gives you another £5,000.—Which is neither one way nor the other. There is, in fact, one reason, perhaps, why it may be better not to bring them in—

3346. It does distort the year's figures?—It does distort the year's figures a bit.

3347. It gave you a knock in 1955, for example?—Yes. The only thing is this is not the whole transaction of the B.T.C. affecting their loss or profit on investments, some of it is given effect to in that item to which you have referred in IV-10, that interest item, because that is interest after adjusting the value of securities. So I would be inclined to think that if we ever did this again it may be better to miss that out.

3348. I am not going to quarrel about that. So there is nothing substantial between us about which items to take. Let me complete this sum while we are on the point. It is going to be shown more clearly in an Exhibit, but the items we have been discussing, the common items, add up to £5,507,000, and 10 per cent. is £551,000?—Yes.

3349. To that Mr. Evershed adds the specific items?—Yes.

3350. Two of which he gave in evidence, but there is one tiny one which he did not give. The first he gave in evidence was £60,000, the guaranteed interest on the Central London Stock. That is clearly specific to London Transport, is it not?—I would accept that it is, yes.

3351. (President): The time was when you allowed for it, Mr. Hill.—Was there, Sir?

3352. Yes. You will find that there is a charge against the notional undertaking.—I had forgotten that. It used to be a composite item until the end of 1958.

3353. (Mr. Fay): We have already been over the salaries of the Boards, and that is £32,000. That is clearly specific to London. Then Mr. Evershed had something which has not yet been mentioned, namely, £10,000 bank charges. That is a figure which does not appear as such in the accounts, but it is part of the last item in Table IV-7, page 24, "Other interest charges".—Those are bank charges as distinct from bank interest charges?

3353a. Yes, this is bank charges.—For running the accounts?

3354. Yes, not overdraft interest. In there there is, in fact, £10,000 which London Transport has paid to its bankers for charges?—I see.

3355. And since Mr. Evershed can isolate it, he has taken it out. If one is applying specific items where they can be ascertained readily, that is a case where it should be applied, is it not?—Oh, yes, there is no objection to doing it on an item of that kind, because we are not splitting the rest of the bank charges. I would readily agree with that.

3356. Those three specific items add up to £102,000?—Yes.

3357. Which you add to the £551,000, giving £653,000?—Yes.

3358. Which he has taken at £0.65m.?—Yes.

3359. That accounts for his figure. Do you regard that as a permissible way of dealing with Central Expenses?—The only criticism I have is in relation to those administrative expenses, which is quite a small thing.

3360. Subject to the criticism, of course, it brings out a figure on the specific approach in Central Charges which is £0.1m. higher each year—£0.1m., but of that £0.1m., £0.06m. is due to his 10 per cent., and my 9 per cent., and £0.04m. is due to this difference in the items with which we are dealing.

3361. That may be. All I am concerned with is to get your agreement that the figure in his column is £0.1m. higher than the figure in your column?—The figure is.

3362. And that figure is, of course, carried into the total Central Charges on this occasion?—Yes.

3363. There is one test I can apply to see what is thought about this matter and that is to see what Mr. Lawson did, because he has done a very refined specific approach, as you recall.—Refined in parts, but he also took short cuts.

3364. Look at page 495 of the last transcript. Have you got WHL I revised?—I have.

3365. The last year shown on that table is 1957.—It is indeed.

3366. The items as they appear in his table for 1957 are these, are they not: Central administration expenses, £0.2m.?—Yes.

3367. Then there is £0.1 amortisation?—Yes.

3368. £0.5m. redemption provision?—Yes.

3369. Less £0.1m. income from investments?—Yes.

3370. Giving a net of £0.7m.?—Yes, that is quite right.

3371. That is 1957. If one looks at PJ 16 one sees that it agrees with what Mr. James put in for that year, £0.7m.—Yes.

3372. He has got £0.69m.?—Yes.

3373. But for 1957 you have got £0.57m.?—Yes.

3374. So you are £0.12m. less than Mr. James and £0.13 less than Mr. Lawson?—Yes, that is quite true on that figure for that year. For instance, I have brought in the profits and losses on investments but he did not, so that makes a little difference. There are a variety of little differences.

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[Continued]

(President): The same, roughly speaking, is true of the supplement to the revised WHL 1 on page 518.

(Mr. Fay): Yes, bringing it further up to date.

(President): That was put in by the Middlesex County Council as part of the information when we asked for representations.

3375. (Mr. Fay): Yes, indeed. (To the Witness): Now I want to move on to London Lines, Mr. Hill.—Just before you do that, might I make one comment, as Mr. Lawson has been referred to on this matter?—I have now in my possession his working notes which I did not have before. On this item he records in his notes that he has taken one-tenth of the Central Administration Expenses and says, "This is an arbitrary proportion".

3376. I do not know that either you or I would disagree with that.—No, I do not think we would.

3377. (President): His notes are: one-tenth of the actual for 1956, £185,000, and one-tenth of the actual for 1957, £202,000, and he has taken estimates for the years 1958 to 1961.—Yes, Sir.

3378. (Mr. Fay): Now we go over to London Lines. If you are right it is going to be cheaper to go over to London Lines in future, is it not?—I hope so, yes.

3379. I think you said you were appalled or shocked, or some other coloured term, at the 3 per cent. loss of passengers assumed on the season ticket increases?—In relation to the very little yield that it gives, yes.

3380. There is nothing unusual in the history of these Applications in assuming a 3 per cent. loss of passengers, is there?—No, there is not. There is nothing unusual in 3 per cent., but it is 3 per cent. in relation to what I think is a trivial amount of yield.

3381. £½m.—Yes.

3382. That is "trivial"?—Yes, trivial, and I went so far as to say not needed. It is not the 3 per cent. as an abstract thing that really matters—although that in itself is bad—

3384. The Commission has often assumed higher percentages than that in these estimations, has it not?—On season tickets? Only once, I think.

3385. I think you may be right, but with other fares with which the public are equally concerned?—Oh, yes indeed, particularly on those fares where you get the element of loss of revenue due to short travel rather than loss of custom.

3386. Just as one example, if you look at last time's transcript at page 111 you will see the Exhibit BH 15 Appendix C of last time. That is a calculation of the gross and discounted yields of the increase in ordinary fares.—Yes, that is right.

3387. And the proposal then was to put up the fare for 1½ miles by 1d.—Yes.

3388. Do you see the gross and discounted yield for that 1½ mile fare?—Yes, 5 per cent.

3389. It assumes a 5 per cent. loss of passengers and a 15 per cent. drop back in addition.—It does indeed.

3390. That is a heavy discount.—Very heavy at that particular fare category.

3391. Much heavier than we have allowed on British Railways season tickets?—Yes, but you were getting £3m. out of the whole of that, or out of that little part. Here you are getting £½m. in relation to—

3392. We were getting very nearly £1m. from that one ticket, were we not: discounted yield, £934,000?—That is right; you were increasing your yield at that point by about 25 per cent.

3393. You complained about the proportion borne by the discounted to the gross yield.—Yes.

3394. The proportion in that case is, I think, 45 per cent.?—Are we on the right one?

3395. 1½ miles, gross yield £2m.—That is right; I beg your pardon.

3396. And discounted yield £923,000.—Yes.

3397. I make that 45 per cent., subject to correction.—Yes, it is 45 per cent. But that 45 per cent. derives from a composite calculation of discount of which a large part is a drop back of passengers, not a loss of passengers. Still, even so, it is 45 per cent.

3398. That was in addition to the passenger loss, which was 5 per cent. as against our 3 per cent. in the present instance?—That is right.

3399. That is all right?—Yes, because you are getting so much more from it.

3400. Why were we getting so much more from it?—Because it is a big fare.

3401. And, Mr. Hill, because it was a big increase.—A big increase, precisely.

3402. Of 25 per cent.—Precisely, nearly 25 per cent.

3403. The reason why the discontinued yield of British Railways' London Lines' seasons is lower than 45 per cent, is because we are not putting nearly such an increase on, is it not?—I have not got that at all.

3404. The increase is not as large.—I agree the increase is not as large, but I cannot agree with what you have just put to me—at least, I do not see it.

3405. You are complaining of the fact that your calculations throw out a figure of 36 per cent on SWH 9; that is your point, is it not?—Yes; that you are only getting, roughly, 4d. out of the 1s. 0d.

3406. The reason why the net yield is little in comparison with the gross is because the increase is a modest one, is it not?—No, it is because the discount is large in relation to the small increase.

3407. It is a combination of the two factors, of course.—Precisely.

3408. You see, here in your SWH 9 you have got 3 per cent. loss of passengers producing a ratio of 36 per cent. In the table at which we have been looking on page 111, you have got a much bigger loss of passengers of 5 per cent. plus, and yet the ratio is higher, it is 45 per cent. That is because the increase in the fare is so much larger, is it not?—That may be, but I do not think that invalidates the fact that here you are only getting 36 per cent. That may be the explanation.

3409. That appears to be a fact. What you are complaining about is that we are not putting the fares up more, is it not?—What I am complaining about is that it is inadvisable to lose 3 per cent. of your custom for acquiring £½m. Just that simple point.

3410. That is what you say.—Precisely; and I say that never in the history of the London Lines' season tickets at these Inquiries have you put forward a proposal which will do so much harm proportionately to your custom and yield so little to your coffers.

3411. Did you criticise losing 5 per cent. of the 1½ mile passengers to get £1m.?—No, not just in isolation, because it gives you £1m.

3412. The difficulty I feel about your argument is that the figures which appear unfavourable to the Commission on your table SWH 9 appear unfavourable because the increase is modest.—No, that is not true at all. It is the relationship of the figures that matters.

3413. Let us work it out and see how it works. If one has got a fare which is, say, £1, for convenience, and that fare is going up by 1s. 0d. and it is estimated to lose 3 per cent. of the passengers, that means that in every 100 passengers you are going to lose £3 initially.—Yes.

3414. Because three of them are going to drop out?—Yes.

3415. You will be losing £3, which is 60s., and the other 97 passengers are paying 1s. 0d. more.—That is right.

3416. So you are plus 97 and minus 60, are you not?—In shillings, yes.

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[Continued]

3417. So on that calculation, what is the net?—37s.

3418. That is an example of an increase which loses some passengers but makes a net gain.—It makes a net gain, yes.

3419. The higher the increase the less the ratio, is it not? Supposing the increase were 2s. 0d. and you lost your 3 passengers.—You would then lose more than 3, you would lose 6 or 8.

3420. That is your point. You think we have fixed the loss of passengers high?—You have done one of two things: You have either over-estimated your discount, that is your loss of passengers, in which case your financial estimates need correction and, therefore, you have more to spare; or, if you have not done that—and I am prepared to believe you have not—then you are proposing to put into force an increase which is not justified in relation to your passengers losses. It is one or the other.

3421. The number of passenger losses is one of the two factors producing the result.—Yes, unquestionably.

3422. That as against the amount of the increase?—The amount of the increase, yes.

3423. And the result of those two factors in this case, as you have worked it out, is to produce a figure of 36 per cent.—Yes.

3424. If, in my example of the £1 fare, the increase were to be 2s. 0d. and the loss of passengers was 4 instead of 3, the result would be more unfavourable, would it not, on this way of looking at it?—Yes; but, of course, you are only selecting 4. If you double the severity of the increase it may well be your 3 per cent loss may be 6 or even more.

3425. Or the other supposition is that we have been too modest about the discount, too conservative?—Under-estimated your income, in other words?

3426. Yes.—That is possible. I would not pretend to know what the impact of this change would be on passengers.

3427. You have produced a table which makes it rather look like that. Your table is factual; it shows what has happened in the past?—It does not show what has happened in the sense of what the actual impact of these changes has been, because nobody knows.

3428. But it shows what has been the forecast in the past.—What the Commission have forecast each time, yes.

3429. And it has brought out the fact we have allowed for a greater loss of passengers this time than before.—Yes, and in relation to what you are going to get out of it, a vastly greater loss.

3430. I pass from that. The next point you took about London Lines was this, that the ratio of London Lines of British Railways to British Railways as a whole was, by some law of the Meads and Persians, fixed at 5 per cent. and must not be departed from?—No.

3431. I thought you might not agree with that.—I say that 5 per cent. has been used over many of these inquiries and I myself have also accepted it. I have yet to see any evidence why it should yet be departed from.

3432. Have you not?—No.

3433. Really?—No.

3434. You say 5 per cent. was taken in 1953, 1955, 1956, 1957 and even in 1959 and you give chapter and verse.—Yes.

3435. Would you mind looking at the chapter and verse in 1959, page 61, Question 337. That was your reference in evidence yesterday?—Yes, I think so.

3436. This is a question put in chief to Mr. Winchester: "What has been the contribution of London Lines towards Central Charges that has been taken in the past?" You observe the form of the question?—Yes.

3437. The answer is: "We have generally used a figure of £2m., being roughly 5 per cent. of the Central Charges."

Then you did not give a reference to the succeeding questions.—No.

3438. But would you see how it goes on. The next question: "How does the gross-receipts figure work out in this case (A) We start off with £41m. Central Charges for British Railways as a whole. British Railways gross receipts are shown for 1957 as £501m. The London Lines' receipts in 1957 were £27m., that is to say £1m. less than the figure we have got for the current position. That figure of £27m. is, in fact, shown in paragraph 173 of the Report."—Yes.

3439. The next question: "So that so far we have got £501m. British Railways' gross receipts, and £27m. for London Lines. How does the calculation proceed? (A) If you take £27m. over £501m. multiplied by £41m. you get £2.2m."—Yes.

3440. "... which, as we are talking in round half-millions, I round off at £2m." Have you bothered, in considering these matters of history, to work out the percentage of £27m. over £501m.?—It is 5.4, yes.

3441. So there is Mr. Winchester working on something which is not 5 per cent.—Oh, no. What Mr. Winchester says here is: We have in the past done this. This time I have applied another test of receipts which produces a slightly higher figure, but I do not use it. I use the figure of £2m. Because the point was put to him at Question 340: "Does that mean you do not see any reason to depart from the figure of £2m.?" (A) Not in these round terms, no."

3442. The round terms are to the nearest £½m.—Yes.

3443. And that is correctly rounded.—Precisely. He had applied a new test here of receipts, but the 5 per cent. never had its origin in receipts at all, it had its origin in expenses. All the way through here he applies a test of the receipts which gives him a slightly larger figure, but he says "I do not need to use it because I am using my rounded figure". You see, receipts is not a valid test because London Lines is paying its way but British Railways are not paying their way by a long chalk and, therefore, if you take a receipts test you are penalising London Lines in the calculation of their share of Central Charges just for the simple reason that they happen to be paying their way and the Railways are not. Receipts cannot be relevant to this. Expenses are not so bad.

3444. (President): If you knew it?—If you knew it, Sir.

3445. And you do not know it, I do not, and nobody else does?—That is very true, Sir.

3446. (Mr. Fay): But we all know the receipts?—Yes, but that does not provide a good test for this, for these reasons, that London Lines is paying its way and its share of the Central Charges—

3447. (President): How do you know it is paying its way? How do you, Mr. Hill, know that London Lines is paying its way?—I am sorry, Sir; I do not.

3448. You cannot know whether London Lines is paying its way, and if you do not know that, you cannot know what their full expenses are?—I accept that correction, Sir; I do not know that. But I do say that London Lines is either paying its way, or it is very much nearer paying its way than British Railways as a whole; I think I am safe in saying that. We do know that British Railways as a whole is making a very large loss, and in any figure we use for London Lines—

3449. (Mr. Fay): I will give you this, Mr. Hill: London Lines is better off than is British Railways as a whole.—Yes, and therefore it follows that its receipts are closer to its expenses than are the receipts of British Railways. If you use receipts as a basis for apportioning the British Railways share of Central Charges, you are putting more against London than you otherwise would, for the sole reason that they are being made either to pay their way or involve a loss nothing like commensurate with the loss of British Railways as a whole, and on that basis obviously the receipts basis is wrong.

3450. So that if the rest of British Railways cannot be made to pay, but in fact get worse, the London Lines

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[Continued]

Central Charges drop, I suppose, in your opinion?—No, I think they remain static. The right method of doing this—

3451. Of course, if we took the receipts-to-day, or the last increase in 1959, the percentage would be still lower?—Yes.

3452. And if the receipts are up, really the expenses are up in some proportion, but perhaps not so much?—No. The right method of doing this, in theory anyhow, would be to try and find the capital invested in London Lines, but I assume that is quite impossible.

3453. (President): Would that be the remedy, if you found the capital invested in London Lines? You would still be in the difficulty of saying how much you apportion to the passenger services, for our purposes?—If you know the whole capital invested in British Railways and you know the capital invested in London Lines—Yes, Sir; I think you are right. The great difficulty would be that you have the through trains running on London Lines. Yes, you are right; I am sorry.

3454. There is one solution to my mind, although I have always felt that there is an intractable difficulty in it. It is to have the same scale of fares for the whole of British Railways, not bothering about distinguishing London Lines. But that would not be very popular with some people?—Well, if it were the same in all its aspects, it might be very popular; if one applied to London the whole range of concessionary fares which are now available, for instance, in Birmingham and Leeds—

3455. But that is all a matter of management. You are not suggesting, are you, that we should make a large number of compulsory concessionary fares?—Yes, it is a matter of management, and you would be applying the worst effects of it.

3456. (Mr. Fay): But you realise, do you not, that the Tribunal can only apply maxima unless it fixes fares?—Yes.

(President): Nine-tenths of the time at these Inquiries everyone forgets that we are only fixing maxima. Another difficulty, referring again to these pages with which we have been dealing just now, is the figure of Central Charges for British Railways, £41.0m., which Mr. Hill, and for that matter we ourselves, do not think is the right figure, and we did not think it was the right figure in 1957. Which-ever way you approach it, it would have come out at more than £2.0m. Do you follow what I am saying, Mr. Fay?

(Mr. Fay): I think I do, Sir, and I do not think I can do other than propound the figure in the Accounts as being the proper figure, because that is an audited figure.

(The Witness): Yes; it is no longer £41.0m., but £42.0m. now.

3457. (Mr. Fay): I do not know whether the criticisms of £41.0m. are applicable to £42.0m.; perhaps you will give us your views?—I have not looked at them, Mr. Fay; I have not given the matter any thought.

3458. I see; you would like to keep it open to the next Inquiry?

(President): Well, we are told there is not going to be a next Inquiry!

3459. (Mr. Fay) (to the Witness): There is another fact which I want for the record; it is that if one did the proportion sum which was done last time, the one we have just looked at, one would take the £29m. on the 1959 Accounts as the gross earnings on London Lines and £457m. as the gross receipts on British Railways, and I think the answer would be 6.2 per cent.?—Yes. I do not recognise the figures, but that may be so.

3460. If London Lines receipts are increasing and if its passengers are increasing and its trains increasing, it is not surprising, is it, that its expenses are increasing?—No, that is to be expected; there is no doubt that they are.

3461. That is, quite apart from increases in wages?—If there are more trains running, which I do not think there are, and if the Lines had been extended, which I do not think they have, it would be.

3462. But you know, for example, that there have been very considerable increases on the Eastern Region?—Yes, there have, but I do not know whether there has been a net increase or not, frankly.

3463. The figure thrown up by the evidence of Mr. Winchester as a ratio is 5.85?—Yes.

3464. Do you find that a surprising figure?—I do not think I can quite apply my mind to it in that way.

3465. But you had some criticism of it which I do not fully understand?—Yes. I say that it has its origins exclusively in his costing exercise, and I just do not believe his costing exercise, neither the 1954 one nor the 1959 one.

3466. But the original 5 per cent. was thrown up in 1954—That was thrown up in 1953. I think the costing exercise of 1954 did not disturb the 5 per cent.; I think that is true.

3467. (President): If you mean the Inquiry of 1953, that was quite a rudimentary form of costing, was it not?—Yes, and I do not think the 1954 costing exercise disturbed the 5 per cent.

3468. (Mr. Fay): 1953 was the year of the Memorandum in which the Tribunal found a figure of £2.0m. for London Lines?—Yes. They did not use 5 per cent.; they found the figure. It was in 1954 that the Commission, in promoting their then Scheme, made the point in opening that the figure the Tribunal had found was 5 per cent. of the total working expenses—it worked back to that—of British Railways, and they were calling that in aid to use a percentage of 5.0 in the 1954 Application.

3469. Wherever the 5 per cent. originated, it was tested against the most complete costing and found to be accurate?—Yes.

3470. Last time there was another costing; it was not so thorough, but it was another costing?—That was partially a re-costing and partially the old costing.

3471. Yes, and with your knowledge of the facts of the Railways in your mind, you are not surprised, are you, that it throws up a higher percentage for London?—Yes, indeed, particularly in view of the vast changes which are taking place on British Railways outside London.

3472. There has been a great deal of contraction of British Railways since 1953 or 1954, has there not?—No. There have been a few branch lines knocked off; they are nothing.

3473. I see. Well, the figures are published and are available, are they not?—Yes.

3474. I suggest to you that British Railways has contracted and that London Lines has extended since that time?—No.

3475. So it is not in the least surprising that there has been an increase in the ratio?—No; I would say that there has been more development on British Railways other than London Lines than there has been on British Railways London Lines.

3476. What are you referring to?—Modernisation—involving capital and everything else.

3477. Yes; a lot of capital, but not much has yet fruited?—Only partly, I agree.

3478. I suppose you are referring to diesel trains?—Yes, all over the country, and diesel cars.

3479. I suppose you have been to Liverpool Street lately?—Yes.

3480. And you know that London has not escaped that process?—That is so.

3481. (President): What figure—you probably gave it, but I have forgotten it—do you put as being the contribution of London Lines to Central Charges?—£2.1m. or £2.2m.; £2.1m. is the figure I have here.

3482. (Mr. Fay): you are still applying 5 per cent., are you?—Yes.

3483. (President): You are applying 5 per cent. to what?—I am still applying 5 per cent. here to the £42.0m.

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3484. (*Mr. Fay*) (*to the Witness*): If it were more than £42.0m., what would be the result?—The 5 per cent. would produce more, yes.

3485. The £42.0m. is the 1959 figure in the Accounts?—Yes.

3486. And we are now in 1961?—Yes, but that does not necessarily move very much, because the great factor that is changing the total of Central Charges is, of course, modernisation, and the increasing deficits of British Railways, and they are not reflected in the £42.0m. Any change in that does not reflect itself into the £42.0m. I observe, for instance, that the net difference in Central Charges between 1958 and 1959, after dealing with the Special Account for the whole of the Commission, was only £350,000.

(*President*): Yes, but for my part—and here I think I differ from everyone in this room—I have never understood why in any apportionment of Central Charges, the Central Account figures are deducted. It seems to me that the interest charges are liabilities of the Commission, notwithstanding the fact that at the moment they are not being asked to meet them. I should have thought that strictly they ought to be allocated as between the different aspects. You will note that I say it is a point of view I have always held; it is a point of view which the Commission do not hold, Mr. Hill does not hold, and for all I know my colleagues on the Tribunal do not hold. I have never understood why.

(*Mr. Fay*): It is a perfectly logical view, if I may say so, Sir. The reason why the Commission does not put that forward is that it would produce extreme results, which would be open to even more attack than is at present attracted by the Commission's very modest proposals.

(*President*): In the WW1 tables which I suppose were put in for the first time in the last Inquiry, the percentages were applied not to the whole of the interest charges—

(*Mr. Fay*): Yes, and the—

(*President*): Mr. Winchester wants to speak to you, Mr. Fay; he wants to remind you that he did not deduct the whole of the Special Account.

(*Mr. Fay*): Mr. Winchester's point is that he brought in the interest on the advances of capital for modernisation, but not on the borrowing for the deficit to bridge the gap. The justification for taking the modest view that the Commission do take is the provision in the Act that the Commission is relieved from its duty for the time being of making both ends meet, to the extent of the Special Account or of the transfers to the Special Account.

(*President*): If we were dealing with these matters in terms of cash and expenditure and not in terms of costs, that would be a very powerful observation; the liability remains.

(*Mr. Fay*): Yes, Sir, it is being thrust forward on to future generations.

(*The Witness*): It is the taxpayers now.

(*President*): Yes, that is what we are told.

3487. (*Mr. Fay*) (*to the Witness*): I think you complain about the amount which British Railways London Lines obtain by the application of the principle of assimilation in this case?—I did not put it that way.

3488. Is that not a fair paraphrase?—That may be the result of it, but what I was saying was that the budgetary statements on which Mr. Winchester relies show that in effect there is only £500,000. That is his budgetary statement, which depends entirely on his costing exercise. That is what I say.

3489. I am now on the next limb of your argument, which led you to say that you thought there ought to be no increase at all on the season tickets on London Lines; that is what you said, did you not?—Yes.

3490. I thought you said that, because it was a move to get money which was not needed?—Yes, and because it lost so much custom.

3491. Assuming that it is needed on London Transport, are you saying that the principle of assimilation should be

departed from?—I would not be prepared to go as far as to say that it is because the principle of assimilation should be departed from; I am thinking rather of the loss of custom.

3492. Because this time in your view it gets too much from London Lines?—It is not because it gets too much; it is because of the damage it is doing. I do not mind your putting up the fares at all if everyone is going to pay them easily and does not react in this way.

3493. It is because of the 3 per cent. of the passengers who it is anticipated will not take out season tickets?—Yes, coming on top of the increases in the last 12 months.

3494. So you are advising the Tribunal that it is unwise to increase these particular season tickets at all?—Yes; that is my personal view.

3495. And you adhere to that view, even if they have to be increased on London Transport?—I hope they will not be increased there; I believe there is money to spare there. I hope the Tribunal will look at this, because I think there is a balance to spare, even in spite of assimilation.

3496. I was asking you questions yesterday with regard to the proposal by the London County Council that season tickets on London Transport should be increased, but only on half-mile charging, or single-stage charging?—Yes.

3497. If that proposal is accepted, would you still advise the Tribunal that there should be no increase on London Lines?—Yes, I would, but I am speaking quite personally.

3498. Solely because of the estimated loss of 3 per cent?—Because of the change.

3499. It is not for any financial reason?—No, because I do not think that half-a-million pounds or a quarter-of-a-million pounds is either here or there as a debit or a credit.

3500. So it is not a financial reason, but purely a commercial reason?—Yes, not forgetting in the context the point I made that to lose a season ticket holder off your London Lines trains is in all probability to lose him off the Underground and the buses as well.

3501. Do you really think that?—Yes.

3502. You know, do you not, that a great and increasing proportion of the season tickets are through seasons?—I would say that they are a minority; if anyone has to take a bus, he cannot get a through ticket.

3503. But in regard to the through tickets from London Lines to London Transport Railways, he can save a great deal of money; if he takes a through ticket—if he can get one—he gets the benefit of the taper?—Yes, wherever the facility is there; but at a great many places, people have to get on a bus.

3504. You heard that in fact the numbers of season tickets, despite recent increases, have been increasing between London and certain South Coast towns?—Yes; that is the spreading out of the people of London.

3505. It is the building of new estates?—Yes, amongst other things.

3506. And the increases up to now do not seem to have deterred people from going to live at those places?—No, that is true.

3507. Do you think the rents, where there are rents, or the values of houses, are being affected?—They are increasing in all the expanding areas.

3508. And that is despite the increases in season tickets?—As long as the population continues to grow, the values are increasing.

3509. So that in your view increases in season ticket rates do not affect the values of the properties in the commuter districts?—I have heard it said that it does at the very end of some of these places, where people have gone to live and have found it too expensive, so that they have had to come back; but I do not think it has had any great effect. I think with the exception of a few seaside places, the trend of value is upwards.

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3510. There is one final matter: Your advice that there should be no increase in season ticket charges on London Lines will produce some odd anomalies, will it not?—I should not think that it would produce any anomalies that cannot be spread out.

3511. You would have one scale of seasons for the Tubes and another scale for the Railways in the London area, and probably still another scale for the Railways outside London?—You already have the latter; that is not regarded as an anomaly.

3512. So there will be three scales, of which the London Lines of British Railways will be the lowest?—I do not think there will. It depends upon what you do; you are only seeking a revenue on the season tickets of London Transport Executive Railways, of £150,000, and there is plenty of room—

3513. I see; we iron out the anomalies by bringing down the London Transport seasons?—Yes, you can do.

3514. I am thinking of places like Wimbledon or Richmond, where you have the choice of going to Waterloo, or going on the District.—Yes.

3515. One would have to have the same rates?—Yes.

3516. And your proposal would depress the London Transport season revenue.—Yes.

3517. That sort of thing is apt to spread up and down the line; you have to avoid anomalies and therefore taper it out?—It would still only be £0.15m. down on your estimate, if it is spread over every ticket on every line.

3518. You are not at all worried about the revenue being £0.15m. down?—No.

3519. (President): Where does it go down?—It is the increased revenue proposed by the third stage of the Applications on London Transport Executive Railways, Sir; that is shown in BH 28, column 7, line 3, sub-item (B).

3520. Then you are not criticising the (A) figures in line 3?—They are accomplished, Sir; I am not criticising them.

3521. Yes, but they are open to review.—I grant that, but it is in relation to stage (B) on London Lines that I think this is most inadvisable.

Re-examined by Mr. GOFF

3530. At the start of my learned friend's cross-examination various figures were put to you, if you remember, for 1960, 1961 and 1962, to show what the resultant surplus would be if you took either your figures for Central Charges or Mr. Evershed's?—Yes.

3531. Of those years, one is 1961; is that a year in which the British Transport Commission would not get the full benefit of the increases?—Quite definitely.

3532. Would it follow, therefore, that it would not suffer the full impact of any diminution owing to the London County Council Scheme if that were adopted?—Proportionately, yes.

3533. You were not asked when those questions were put to you to look at Table AE 3; would you just look at it now. That gives figures for a future year, does it not?—Yes.

3534. And with Central Charges at £7.0m., it produces a surplus of £2.1m.?—Yes.

3535. Your Central Charge figures for 1962 at the highest were £6.8m., and at the lowest £6.5., were they not?—Yes.

3536. That appears in SWH 8?—That is right.

3537. If you applied those figures instead of the £7.0m., to the future year, you would increase the surplus of £2.1m. by either £0.2m. or £0.5m.?—Yes.

3538. Giving you £2.3m. or £2.6m.?—Yes, that would be so.

3522. That is why I am asking you about them. The provisional increase shown at stage (A) could be cut down by us, or it could be abandoned?—You could not do that, Sir, and do it on London Lines, because that would mean another £0.4m., and utilise what margin we think there is available to implement the half-mile charging which the London County Council is putting forward. But you could do all those things; I do concede that.

3523. Never mind the London County Council alternatives; are you or are you not suggesting that we could not confirm the Scheme which provides for the increase of season ticket rates on London Lines which, as it is said, will bring in net £410,000 a year?—I am saying that you could not interfere with that on that basis.

3524. Then you are not criticising the £410,000 added receipts from rates calculated to bring in £410,000?—That is right, Sir. My reason for that, quite apart from being limited in the amount of money there is available is that whatever damage that increase would do, it has now done it, because although in most cases people have not renewed their January season tickets, a decision has been made.

3525. Would not everyone be cheered up if that were undone?—They would be cheered up, Sir, but they would not be selling their scooters.

3526. (Mr. Fay): There is one final matter about which you might be able to help me. I saw—I think it was yesterday—that the London Council rate is going up 6d. in the £; do you know what it is at the moment?—I cannot recall, but I could quickly find out. It is very high.

3527. And that will increase the expenses of the Commission, will it not?—To a very little extent; the Commission does not pay much in the way of rates.

3528. But what rates they do pay will have gone up by something like double since 1947, I am told, on individual properties?—The British Transport Commission as a whole?

3529. No, on individual properties in London.—Yes, I can well believe that.

3539. If you took off £0.9m. in respect of the London County Council Scheme, your lowest surplus would be £1.4m. and the highest £1.7m.?—Yes.

3540. Yesterday the learned President interposed and asked you to compare the revised WHL 1, which is at page 495, but you have never had an opportunity in fact of comparing it, although you were asked one or two questions about it this morning?—That is so.

3541. Would you look at Table WHL 1 (Revised) at page 495; first of all, on what basis does that table work? Is that the specific approach or something else?—It is a specific approach.

3542. And it is a specific approach method to do what; what does it show?—The net surpluses and deficits recorded in each year on London Transport Executive.

3543. You were asked specifically this morning about 1957?—Yes.

3544. I am not sure that I followed what you were being asked, or what you were saying about it, but you agreed to a figure of £0.7m. as being culled from the 1957 column of that table?—Yes.

3545. What was that £0.7m.?—The addition of three items and the subtraction of one.

3546. May we have the net effect; first of all, may we have the items?—The first one is £0.2m. central administration expenses.

3547. What do we add to that?—£0.1m. amortisation of discount.

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3548. That gives you £0.3m.?—Yes. Then there is the provision for redemption, £0.5m.

3548a. So that is £0.8m. Then we take one off; that is income from investments, £0.1m.?—Yes.

3549. So that is £0.7m.—Yes, but there is the interest on surplus, £0.1m., funds to come off.

3550. So that it would come to £0.6m. and not £0.7m.?—Yes.

3551. What does that answer of £0.6m. show?—It shows that on this basis the fair contribution, or the contribution, towards the Central Charges should be £600,000.

3552. Is that the total Central Charges or the Charges other than interest items?—That is the total.

3553. So the figure is £6.0m., and that compares, does it, with £5.7m. in your SWH 3?—Yes, it does indeed.

3554. When you were being asked about that a few minutes ago, it was put to you that the figure was £0.7m., and this extra £0.1m. was not taken off?—Yes.

3555. Why do you say that £0.1m. should be taken off?—That is an element in this method of calculation, because what Mr. Lawson is saying here is that there were in 1957 surplus funds which were earning interest, and their interest earnings is £0.1m. and they should, therefore, be set off against these other items dealt with here.

3556. In the same way as you do in your SWH 3 and SWH 4; is that right?—Yes, but I would not like to say that this is quite fair to the point that Mr. Fay has put, because I would myself think that the right way to set off £0.1m. was against the interest charge at £5.3m., and I cannot use it twice. Therefore, although I have come some way with you, I would rather retract it, frankly, because I think it is not quite fair to—

3557. It is not a question of coming with me; I want to see where we are.—If you want to dispose of it, it should be disposed of against the interest item.

3558. So you agree with the £0.7m.?—Yes.

3559. That appears on the specific method, where you have £5.72m.; is that right?—Yes.

3560. The table also says "Normal Met Surplus or Deficit"—Yes.

3561. If you compare that with your SWH 3, your tables show either a higher surplus or a smaller deficit, do they not?—Yes.

(President): For which year?

(Mr. Goff): I think it is so throughout, Sir.

(President): Yes, I think it may be.

3562. (Mr. Goff) (to the Witness): I would just like you to run your eye over the years, and see whether that is so; whether Table WHL 1 (Revised) shows a smaller surplus than your tables, and where there is a deficit, whether it shows a larger one?—Many of these differences are brought about by a corruption of one place of decimals in Mr. Lawson's figures.

3563. But why are the figures different in those two ways? First of all you get the £7.0m. instead of the £5.2m., and the second one is that you do get these different balances. I would like you now to compare the tables, as you were invited to do yesterday.—There are several reasons why the figures are different from those of Mr. Lawson. The first one is the one to which I have just referred, namely that you get apparent differences in some cases which are not real differences, owing to the corruption of one decimal place. I would have great difficulty in finding out where they fall; the whole exercise is scattered with them. The second one is that Mr. Lawson did not bring into his original surplus fund the surplus fund of London Transport over and above the trust fund; he made a note to say that it wanted looking into later, but he did not do it in this exercise.

3564. (President): In the revised table Mr. James begins with the £38.8m., and on your table you begin with the £41.0m.?—Yes. In his first table he began with a

£40m. figure of some sort, but that was not this; that was a treatment of something else — loans from London Midland & Scottish, I think. That is one point which travels right through; at no point is it important, but it has a cumulative effect of a little bit each year. The next reason is that the figures he has taken in WHL 2 for net capital expenditure in each year are not precisely the figures which Mr. James and Mr. Evershed and I have taken; there are little differences there. Why there are, I cannot say without a great deal of research; they are not very different, although in one year I see there is a difference of three-quarters of a million pounds, and so on. There will be other differences; Mr. Lawson—

3566. I am not following this. Where do you say there is a difference in WHL 1 in respect of net capital expenditure?—One has to look at WHL 2 to get at it, Sir; these are interlocking tables. For instance, in his first year, 1948, he puts the net increase of capital expenditure at £5.8m.; that is the inset figure in the first column, the second sub-column of the first main column.

3567. (Mr. Goff): It is on page 496.—Yes. Whereas the figure which Mr. Evershed and I are using is £5.39m., or £5.4m., and you get little differences of that kind. The next year is on; the next one is on; there are little differences again, and there are ups and downs which would take an awfully long time to find.

3568. But at any rate there are differences like that?—Yes, and many of them cancel each other out, I think.

3569. Does the fact that this revised table works out differently from the figures shown in SWH 3 lead you to the view that your SWH 3 is wrongly worked out in principle?—No. You can establish quite clearly that it is not wrongly worked out from any reasons stemming from it. The main reason is that at no point has Mr. Lawson used the second place of decimals here; secondly, he did not have all the data we now have; thirdly, he took one or two short cuts on the calculation of interest rates, and so on.

3570. You have seen this table before, of course?—Yes, at the time it was put in.

3571. Having had your attention drawn to it again, do you want to stand by your figures in SWH 3 and SWH 4?—I see no occasion to revise SWH 3 and SWH 4.

3572. Mr. Lawson did in fact adopt your method for the £38.8m., did he not?—Yes.

3573. And that I think appears from a note at page 494?—That is right, yes; he treated it as surplus funds.

3574. The note is at the end of the first column on page 494; it says: "Mr. Lawson has considered capital expenditure and deficits for 1948-1957 as being met out of surplus funds notionally available to London Transport. Mr. James has off-set trust fund moneys against the initial capital obligations and regarded capital expenditure and deficits as being met out of new borrowings, at a higher rate of interest".—Yes.

3575. And I am right, am I, in understanding that as meaning that Mr. Lawson was doing precisely what you do with the £38.8m. and that he was not adopting the principle in PJ 16, which was Mr. James's table?—Of that there is no doubt.

(Mr. Goff): Now, Sir, I desire to pass to a different subject-matter; I do not know whether you would think it convenient to leave that until later?

(President): Very convenient, Mr. Goff.

(Adjourned for a short time.)

(Mr. Fay): Before my friend resumes, Sir, may I ask whether the Tribunal are likely to require the Commission's witnesses back for questions from the Tribunal?—There may be some difficulties about dates.

(President): No, Mr. Fay.

(Mr. Fay): In fact, I think they would all be available, except Mr. Dickson, who is not available next week.

The other matter, while I am still on my feet, is that I am now in a position to circulate Exhibit AE 7, the

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[Continued]

reconciliation for which you asked of the capital outlay for 1959. It is the reconciliation with the figures in the exhibit and the booklet "London Transport, 1959". That is now being circulated.

The other document I promised was the statement in tabular form of Mr. Evershed's calculation of the central expenses; I hope that will be available before the close of to-day's proceedings.

(President): Thank you, Mr. Fay.

3576. (Mr. Goff) (to the Witness): When you were being asked about the £2.2m. which turned the £38.8m. into £41.0m., it was put to you that if you omitted the £2.2m., your column 15 in SWH 3, balance of B.T.C. loan, would go into debit in 1954?—That is so.

3577. You answered: "Yes, but it would recover in 1955 and therefore I would continue the 3 per cent."—Yes.

3578. And then I think you said that because it would go into a minus, you would have to reconsider whether it would be at 3 per cent., what do you say the position is on the aspect of the matter?—In doing this exercise, the fact that just because at the end of one year it would have gone into a small minus, I do not really think I could say that because at the end of the next year or two it would have recovered again to a substantial extent—I do not think that would warrant my changing or moving into the other interest rate. I think there is something to be said for both sides there, but if it did, it has no adverse effect on the computation of the Central Charges in those subsequent years or in the years of estimate—say 1960, 1961 and 1962—over and above the value that I have attributed to the £2.2m. Obviously that would not be there, because the hypothesis you have put to me is without the £2.2m.; so it would affect it by the 6 per cent. in later years on £2.2m.; that is £0.1m., which is the value I have attributed to the factor in the little summary I gave, and it does not have any further cumulative effect.

3579. Can you explain why that is; if it changed the rate of interest, would it not have an effect?—We would cease to apply 3.0 per cent. and that would sort of expedite—I am afraid I am not putting this very well. That would mean that large sums in the later years would have to be charged at higher rates of interest, and that would be in itself an adverse effect. But the very fact that you are ceasing this at a 4 per cent. time means that you would calculate 4 per cent.—you would apply 4 per cent.—to the balance that began to improve again in the next year, the next year and the next, those three or four years in which there is a steady improvement, and the effect of applying that 4 per cent. at that stage is enough to outweigh the effect of applying at a later stage 6.0 per cent. to a larger sum.

3580. So that as the balance improved, promptly the effect of changing the rate would at first be to improve the position from London's point of view?—Precisely.

3581. It is only later that it would make it worse, and then the two would be offset?—I have in fact made calculations in detail on this, Mr. Goff, but you have not seen them. That is the effect of that; the only effect right down to 1962 is the value that I have attributed to the £2.2m., namely £0.1m. I do not agree, of course, that the £2.2m. should come out.

3582. No; it is on the hypothesis?—Yes.

3583. Then I wanted to ask you about your interest calculation; that is SWH 11. I do not know whether this has emerged or not, but did Mr. Lawson apply this method?—No, he did not. I was not able to be quite clear about this in reply to the learned President yesterday, but I took the opportunity of looking at it last evening; he did not, and I can quite see why he did not.

3584. Perhaps you could tell us about that?—He took short cuts in his interest calculations; and in his working notes, which I have now acquired, as I have already mentioned, I find an example (not on this one, but on another one) when he was dealing with the interest on surplus funds. He says that for convenience and to avoid complication, he gives effect to it in the next year, and

so on; he has done one or two things like that in his calculations, and he would undoubtedly have added to the complications had he done this. I cannot say whether he thought of it or not, but I did take the opportunity last night of re-calculating his figure in WHL 1 by giving effect to this "half-year in arrear" point, and working, as he has done, to the first point of decimals, and I find that had he introduced this into his calculation, it would not have made any difference in any of his figures in any year, with the exception of one year, where the resultant figure works out to £0.47m. His figure works out, taken to two points, to £0.44m.

3585. In what year is that?—I think it was in the middle 1950's; it was 1951. He has an interest calculation in that year of £0.4m.

3586. And that is WHL 1 (Revised)?—That is right.

3587. And it would have changed the fraction in the year, would it?—Yes. Actually his £0.4m. is £0.44m. corrupted down to £0.4m. Had he applied this correct formula, the calculation would have been £0.47m., but it so happens that they are on different sides of the half-way mark, and that would have gone up. But it would have been a quite unnecessary complication with this method of working.

3588. (President): Have you ever in the last 10 years expressly followed what you now say is the only correct method in any of the tables we have received from you, Mr. Hill?—The point has never arisen, Sir. It would not arise because in the only time that I have presented, or worked out for that matter, a specific approach which involves picking on an item of interest and applying it was before 1953, and I did not bring into my calculations in those early years—the first one was 1950—any interest on surplus or deficit over the year at all. Ever since then my presentations of Central Charges have always been dividing up the cake on the lines of tables SWH 1, 2 and 8, and it was really only the re-emergence, shall I say, of Mr. Lawson's specific approach, Mr. James's PJ 16 and its further use again by Mr. Evershed to illustrate—I know he does not believe in it—that has forced me into this calculation at all, and then I had to do it as I thought proper.

3589. (Mr. Goff): You have proceeded on the basis of SWH 1, 2 and 8; now you are testing PJ 16, which was put in at a late stage of the last Inquiry, and the table which is the continuation of it now?—Precisely, but I had used the formula in countless other connections in my own business, of course.

3590. (President): But do you not think that you were a little over emphatic in saying of your method, which is described in SWH 11 as the correct method, that it is the only method of which one can think; did you not put it a little too high in saying that?—Frankly, Sir, I do not think so, because if you asked any accountant to find out what is the sum of interest required in the year to service a deficit occurring in the year, I am quite sure that he would give this half-yearly treatment to the interest payments. I cannot think he would do otherwise unless you asked him to give you a quick rule-of-thumb method; then he probably would. But if you said: "I am going to start a business and these are the facts about income and expenditure; I want you to advise me about how much working capital I need, or bank interest", I am sure that he would do it by that method.

3591. (Mr. Goff): And even if it were not the only method, would you say that it is the best, or the worst method, compared with others or would you say that others are just as good?—There are better methods, but they are only further refinements of this theory of estimating the position at the end of each month, or at the end of each week if possible.

3592. (President): Or at the end of each day, I suppose?—Yes, in theory, Sir, and no doubt there are some businesses which could do that.

3593. (Mr. Goff): And taking it year by year, what do you say of this method?—I say that this is the proper method; I would put it as high as that.

3594. And the method is illustrated in SWH 11?—Yes.

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[Continued]

3595. And the difference between the two calculations there is this, that in the first one, the method put forward by the Commission, one deducts from the net revenue the whole of the Central Charges and expenses to arrive at a credit or debit balance for the year and then takes the mean of that on the footing that it is flowing in and out regularly?—Yes.

3596. Whereas you say that only Central expenses other than interest flow in and out regularly?—Yes, and indeed only some of those.

3597. So you took those off, but not the interest?—Yes.

3598. And then you took half the interest because it is payable half-yearly in arrear?—Yes.

3599. And that gave you a debit or credit balance, and you took the mean of it?—Yes.

3600. You did that for the same reason as before, because what has to be met will be flowing quickly?—Yes. There is one field in which this formula in my experience has been used quite extensively; that is in the rating of properties on the profits method, where it has been necessary to calculate the hypothetical tenants' outgoing for working capital and there you do have regard to a sort of monthly flow, if you can get the figures, and you treat interest half-yearly if it is payable half-yearly.

3601. Then you were questioned at some length about the different methods of assessing Central Charges other than interest; your method of taking an overall percentage and Mr. Evershed's method of taking certain items in toto omit one item in toto in taking the percentage for the balance?—Yes.

3602. And you said that in your opinion if that method were adopted the percentage taken for the balance ought to be reduced?—Yes, on some items.

3603. And it was put to you that that was pure speculation?—Yes.

3604. What I would like to know is this: If you did adopt the method of taking certain items in toto, either in or out, would you be in a position to work out exactly how the balance ought to be apportioned, or are you then left simply to take a percentage?—You are left with it. You would have to apply your mind to what you thought was a reasonable percentage.

3605. But you could not work it out otherwise than by judgment or speculation?—The best of all methods would be to requisition the information you wanted, which I suppose could be obtained.

3606. Would that involve a fair amount of information?—Yes, the preparation of basic information would be rather lengthy, but the calculation would be simple. With regard to the administrative staff of the Commission one would want a broad division of the duties of the offices and sub-offices and so on.

3607. You would have to work it all out?—Yes, and it is not worth it.

3608. Short of getting the information then, you have either to do what you have in fact done and take your overall percentage or you have to take certain items and then apply a percentage to the balance?—Yes.

3609. And do you consider that applying the overall percentage is more accurate than taking out certain items and not attempting to reduce the percentage with the balance?—I think it is, with one exception. I must state quite clearly that I would accept myself that you can take one item out separately and without violating the global division of the other. That is that guarantee; I do not think strictly speaking it is an interest charge, and it could have been dealt with in the interest calculation. Otherwise I would say yes.

3610. If you take out all that Mr. Evershed did take out, you have violated the percentage?—Yes, I think so.

3611. Now perhaps you would just look at table SWH 6 for a moment; I think you have agreed that the miscellaneous receipts item at line 11, on the information that you now have, should not be included?—In the later years, yes.

3612. They did in fact appear as an item in the accounts; that is why you put them in?—Yes.

3613. And you now know that they have in fact been included in another item?—I now know that such part of them as used to be London is now in another item, and others are exclusively non-London. I am told that and I accept it.

3614. So they should not be in your calculation?—That is so.

3615. If they were omitted from the calculation, would they affect the figures in your tables SWH 3 and SWH 4?—No, they would not affect those because we would be getting down to the third point of decimals here.

3616. When you were asked about the 5 per cent. being applied in the calculation of London Lines share of the total British Railways Central Charges and London Lines share of increase in the wages rates and price levels—do you remember that passage in your cross-examination?—I do indeed.

3617. —You say that there had been a partial re-costing this time. It was this time, was it?—If I did say that, I was wrong. I meant last time; in 1959 it was a partial re-costing.

3618. This time all we have is the calculation which you were discussing and as to which Mr. Winchester gave evidence?—Yes, that is right.

3619. And then you criticised the proposal at the third stage, to obtain by season ticket increases a gross yield of £770,000 and a net yield of £280,000 with a loss of 3 per cent. custom?—Yes.

3620. And I think your evidence was that that ought to be abandoned?—Yes.

3621. It was put to you that that would sacrifice the principle of assimilation between London Lines and the London Transport Electric Railways?—Yes.

3622. That sacrifice could be avoided if the third stage season ticket increase were also abandoned on London Transport Railways?—Yes, of course.

3623. And the effect of that would be to lose a further net yield of £150,000?—That is correct, yes—in a full year.

3624. You gave evidence that in your view on the figures the £770,000 gross and the £280,000 net should be abandoned, that there was room to do that?—Yes.

3625. Would it still be true if you abandoned the £150,000?—Without question.

3626. And if and so far as the London Transport proposals for single-stage charging and half miles fare were not adopted that would increase the room to play with in abandoning this other item?—There would be a great deal of room; if these proposals are not adopted there is a great deal of room for a whole set of other modifications.

3627. So that there may not be any misunderstanding—I want to press my case on it—I want your view on that possible hypothesis.—Yes. I think it should be pointed out that the London proposals themselves include some diminution of the net income from, amongst other things, season tickets. So if we put the value of the London County Council proposals at £0.9m. it is not to be assumed that the £1.50m. is wholly additional to that; it is only additional to some degree.

3628. The London County Council proposals in themselves would lose London Transport part of the £150,000; is that what you are saying?—Precisely. I am not sure where the figures come, but they do overlap.

3629. I think £50,000 was agreed between the Commission's witnesses and myself for the effect there?—Yes; then it would be £100,000.

3630. London Lines season tickets were increased at the first and second stages?—Yes.

3631. And it is proposed to increase them at the third stage?—Yes.

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[Continued]

3632. And that is true also of London Transport Electric Railways, is it not?—I think it must be so.

3633. But that is not an accountancy matter?—No; I have not checked on that.

(Mr. Fay): They are the same; they are assimilated.—I think that must be the case.

(Mr. Goff): Yes, I thought that was so. Having already had two increases—or rather if you increase more than once and continue to increase at fairly frequent intervals—is the loss of passengers likely to be more serious than if you had only one increase?—Yes, I think it is. I think increases in rapid succession are likely to have a greater influence on the “marginal” people who do not know whether to continue to take a ticket or find some other means of transport, than if they have increases at less frequent intervals. I think that necessarily follows, because intervals are generally also accompanied by an increase in remuneration over the years; in a period of two years most people’s income, in the times we live in now, have increased.

3634. You say “in an interval of two years”?—Two or three; I would say two years.

3635. A number of questions were put to you on the postulation that if you were wrong in your basic figures of capital invested in the London Transport Executive, as the enumerator of your fraction, and capital invested in the Commission as a whole as the denominator, would that alter this that or the other item which was being discussed; do you remember that?—I do indeed and of course it would.

3636. But do you think you are or are not wrong in that calculation?—I do not think I am wrong in anything here. The only two points which were really put to me were the effect of including capital invested and not stores and materials; that was the first one. I could not possibly agree that it would not be correct to include them, as capital locked up in stores and materials is locked up as firmly as it is in rails and stations. The materials themselves are mobile, but they are used and they have to be replaced by another lot and so on. I agree that the figure varies a little from year to year, but over the years not very much except by way of inflation or deflation. Capital locked up in that way is I think rightly brought into the calculation. The other point is that instead of going back to the cruder method, if you cut out stores and materials you advance to the refinement of also bringing in the debtors and creditors and so on. I agree that that is right in principle, but it is hardly worth the doing. We know that these things tend to balance out over the years, and I have demonstrated in SWH 10 that if one went to this further stage of refinement, which is unobjectionable in principle, it would make for a little less contribution from London. I do not think any other point was put to me as to any other possible error or difference of view as to what should be brought in.

3637. And to compare your tables SWH 1 and 2 and 8, that is on the test of capital invested, is it not?—Yes.

3638. How do you say that compares as a method with the judgment method?—I think it is vastly superior to the judgment method, which at its best is only someone’s judgment.

3639. (President): I think I only have one question for you, Mr. Hill: Table AE 3 at page 43 shows that the result in a future year of charges at the levels which are sought to be approved by us produces a surplus of £2.1m.?—That is so, Sir.

3640. Supposing we thought that that surplus were not large enough, have you any views as to what fares should be further increased?—First of all, it is £2.1m. if you accept £7.0m. as the Central Charges—

3641. Yes, I know exactly how it is arrived at. Assuming we thought that £2.1m. was too small a surplus in a future year, what fares increases would you,

as a financial expert, recommend?—Quite honestly, Sir, I think I would have to say, believing as I do that such a surplus is undesirable, that I cannot really be a party to suggesting an increase in charges. I think that is the only reply I can honestly make.

3642. You prefer not to express an opinion?—I do. The only general one I would give is that if charges had to go up I would take the line that they should go up wherever the damage to the custom was the least; but beyond that broad principle I would not like to go any further, Sir.

3643. In other words, you think it is a matter upon which the Commission and the London Transport Executive would have to make up their own minds?—With respect, Sir, I think the Tribunal would.

3644. But the Tribunal fixes maximum charges, Mr. Hill.—I see.

3645. You have expressed views on other fares as to what the proper managements fare is, and I was hoping to get an expression of opinion from you as to what fares might be tampered with if the Commission were told they ought not to have a surplus of more than £2.1m.—I am sorry, Sir; I would not like to venture to give an opinion.

3646. You have not thought about it long enough; is that the position?—I am so opposed to the surplus that I have not given it any thought; I had not expected to be asked that question.

3647. (Mr. Goff): May I just put this question: If you were asked to advise on that matter, would you like to give an opinion off-hand, or would you want to consider it?—I should want a most detailed investigation.

(The witness withdrew)

(President): Mr. Hill is your only witness, is he, Mr. Goff?

(Mr. Goff): Yes, Sir.

(President): Is there anybody else here who is going to call any evidence? (No reply). Then, subject to the circulation of your AE 8, Mr. Fay, that concludes the evidence.

(Mr. Goff): Subject to this: We are just examining AE 7 and it might be that I or my learned friend might want to put some questions on that to Mr. Evershed.

(President): How long would it take you to consider that?

(Mr. Goff): Might we consider it for a short while and then we will be able to say whether we can do it at once or not.

(President): We will adjourn for a quarter of an hour and let you consider that.

(Adjourned for a short time)

(Mr. Goff): I am obliged to you for giving us this opportunity of considering AE 7, Sir, and, having discussed it with my learned Junior and Mr. Hill, we have decided that we do not wish to cross-examine.

(President): I think even I understand it, Mr. Goff.

(Mr. Goff): The “even” should be applied to me, Sir.

(Mr. Fay): One advantage of the adjournment has been that the Exhibit AE 8 which was promised has arrived and has been circulated, and I trust it has reached the Tribunal.

(President): Yes. Then we will adjourn until Thursday, 2nd March. We propose, as I indicated we would do yesterday if there were no objections, to tell three of the Objectors or Representatives, I am not certain which they are, that if they will come at 10.30 on that day they will be allowed a short time in which to address us.

(Adjourned to Thursday, 2nd March, 1961, at 10.30)

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[Continued]

EXHIBIT AE 7

LONDON TRANSPORT EXECUTIVE

RECONCILIATION BETWEEN CAPITAL OUTLAY
FIGURES SHOWN IN "LONDON TRANSPORT IN
1959" (Page 32) AND EXHIBIT AE 5, YEAR 1959

	"London Transport in 1959"	Exhibit AE 5 (1959)
	£m.	£m.
Gross outlay	6.8	7.1
Deduct: Depreciation provisions, realisations and net in- crease in maintenance equalisation provisions ...	5.1	
Realisations		1.7
Depreciation provisions ...		3.5
Transfer from Maintenance Equalisation		0.2
	<u>1.7</u>	<u>5.4</u>
		<u>1.7</u>

NOTES:

- (a) There is no difference in the presentation of net figures. The transfer from bus and coach overhaul equalisation does not form part of the reconciliation because it is included in B.T.C. Accounts and in "London Transport in 1959" in "Creditors and accrued expenses."
- (b) The difference in presentation arises from the fact that the figures given in "London Transport in 1959" are confined strictly to the year's transactions, whereas the figures in AE 5 (which agree with those shown in B.T.C. Accounts, tables V-8 columns 3 and 5 and V-10, columns 2 and 4) include an adjustment in respect of 1958, which has the effect of increasing capital outlay by £0.3m. and increasing the amount received from "Realisations" by a similar amount.

EXHIBIT AE 8

LONDON TRANSPORT EXECUTIVE

CENTRAL EXPENSES—YEAR 1959

	£000's	£000's
1 Capital Redemption (IV-8)		3,269
2 Amortisation of stock discount (IV-9) ...		564
3 Management of stocks and loans (IV-5) ...		234
4 Central Administration (IV-6)	1,817	
5 Less: Excluded items	53	
6		1,764
Miscellaneous Central Charges (VI-5)		
7 Subscriptions and donations	36	
8 Expenses of Transport Consulta- tive Committees	25	
9 Expenses of Transport Tribunal	20	
10 Audit fees	6	
11		87
12 Interest in respect of stock redemp- tion fund accounts (IV-7)		1,107
13 Less: Income from investments held in respect of stock redemption fund accounts (IV-10 part)		
		<u>Cr. 1,518</u>
		<u>5,507</u>
		551
10 per cent. thereon		
Items specific to London Transport		
14 Guarantee of interest on Central London Stock (IV-7)	60	
15 Salaries, etc., of Members of London Transport Executive (IV-6)	32	
16 Bank charges (IV-7 part)	10	
17		<u>102</u>
		<u>653</u>
		(say) .65

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